



FEE RISK RETIREMENT EXAMPLE

Attachment 4 to RFP F04701-02-R-0500

1 FEB 2002

FEE RISK RETIREMENT EXAMPLE FOR THE EMD PHASE

This example illustrates the fee risk covenant described in H-521 of the contract, and should be read with that clause.

Sample figures used in this example—	\$1,000,000,000	Value of EMD CLINs
	\$130,000,000	Award Fee Pool for EMD CLINs
	\$50,000,000	Mission Success Fee Pool for EMD CLINs

INITIAL FEE RISK REMOVAL PERIOD

Sample figures—	
\$50,000,000	Award Fee earned through DEC 2006
\$25,000,000	Mission Success Fee earned through DEC 2006

STEP ONE—Determine the Fee Risk Removal Pool for the Initial Period. This is the sum of the Award Fee and Mission Success Fee earned through the start of the period—in this example, it is \$75,000,000.

STEP TWO—Determine the amount available for fee risk removal at each 6-month decision. This is one-tenth of the Fee Risk Removal Pool—in this example, it is \$7,500,000.

STEP THREE—The FDO performs an assessment at each six-month decision, and the fee risk removed is the assessment factored against the amount available for risk removal at that decision. In this example, a 100% success assessment will retire risk on \$7,500,000; a 90% success assessment will retire risk on \$6,750,000; an 80% success assessment will retire risk on \$6,000,000, and so forth.

An illustrative initial period is provided in Table 1. This shows an example where the FDO made 100% success assessments in Jan 2007, Jan 2009, and Jul 2009, with 50% success assessments in every other period.

TABLE 1—INITIAL PERIOD EXAMPLE

	Jan 2007	Jul 2007	Jan 2008	Jul 2008	Jan 2009	Jul 2009
Available:	\$7,500,000	\$7,500,000	\$7,500,000	\$7,500,000	\$7,500,000	\$7,500,000
FDO Assessment:	100%	50%	50%	50%	100%	100%
Fee Risk Removed:	\$7,500,000	\$3,750,000	\$3,750,000	\$3,750,000	\$7,500,000	\$7,500,000
Cumulative Removal:	\$7,500,000	\$11,250,000	\$15,000,000	\$18,750,000	\$26,250,000	\$33,750,000
NOTE: It is not possible to remove the risk on the entire risk removal pool during the initial period—the portion where the risk is not yet removed rolls over into and becomes part of the second period.						

SECOND FEE RISK REMOVAL PERIOD

Sample figures—	
\$72,500,000	Award Fee earned through DEC 2009 (includes the \$50,000,000 <u>earned</u> in the initial period)
\$37,500,000	Mission Success Fee earned through DEC 2009 (includes the \$25,000,000 <u>earned</u> in the initial period)

STEP ONE—Determine the Fee Risk Removal Pool for the Second Period. This is the sum of the Award Fee and Mission Success Fee earned through the start of the period (including the fee earned during the initial period), less the fee risk removed during the initial period—in this example, the earned fee is \$110,000,000 and the fee risk removed during the initial period is \$33,750,000, so the fee risk removal pool for the second period is \$76,250,000.

STEP TWO—Determine the amount available for fee risk removal at each 6-month decision. This is one-tenth of the Fee Risk Removal Pool—in this example, it is \$7,625,000.

STEP THREE—The FDO performs an assessment at each six-month decision, and the fee risk removed is the assessment factored against the amount available for risk removal at that decision. In this example, a 100% success assessment will retire risk on \$7,625,000; a 90% success assessment will retire risk on \$6,862,500; an 80% success assessment will retire risk on \$6,100,000, and so forth.

A illustrative initial period is provided in Table 2. This shows an example where the FDO made 100% success assessments in Jan 2007, Jan 2009, and Jul 2009, with 80% success assessments in every other period.

TABLE 2—SECOND PERIOD EXAMPLE

	Jan 2010	Jul 2010	Jan 2011	Jul 2011	Jan 2012	NOTE: This example presumes IOC in Sep 2011, but it could occur earlier or later—in such a case, this period could have more or fewer decisions than illustrated here.
Available:	\$7,625,000	\$7,625,000	\$7,625,000	\$7,625,000	\$7,625,000	
FDO Assessment:	100%	80%	80%	80%	100%	
Fee Risk Removed:	\$7,625,000	\$6,100,000	\$6,100,000	\$6,100,000	\$7,625,000	
Cumulative Removal:	\$7,625,000	\$13,725,000	\$19,825,000	\$25,925,000	\$33,550,000	

FINAL FEE RISK REMOVAL PERIOD

Sample figures—

\$100,000,000	Award Fee earned through December 2009 (includes the \$72,500,000 <u>earned</u> in the initial and second periods)
\$50,000,000	Mission Success Fee earned through December 2009 (includes the \$37,500,000 <u>earned</u> in the initial and second periods)

STEP ONE—Determine the Fee Risk Removal Pool for the Final Period. This is the sum of the Award Fee and Mission Success Fee earned through the start of the period (including the fee earned during the initial and second periods), less the fee risk removed during the initial and second periods—in this example, the earned fee is \$150,000,000 and the fee risk removed during the initial and second periods is \$67,300,000 (\$33,750,000 and \$33,550,000, respectively), so the fee risk removal pool for the second period is \$82,700,000.

STEP TWO—Determine the amount available for fee risk removal at each 6-month decision. This is one-tenth of the Fee Risk Removal Pool—in this example, it is \$8,270,000.

STEP THREE—The FDO performs an assessment at each six-month decision, and the fee risk removed is the assessment factored against the amount available for risk removal at that decision. In this example, a 100% success assessment will retire risk on \$8,270,000; a 90% success assessment will retire risk on \$7,443,000; an 80% success assessment will retire risk on \$6,616,000, and so forth.

A table for the final period is not provided, but the mechanics are identical to those illustrated in the initial and second period examples above. The period will continue with six-month decisions until all the fee risk is retired.

EXAMPLE OVER TIME

Table 3 is provided to illustrate how the fee at risk may be reduced to zero over time, using the sample figures above. The “Perfect Performance” line illustrates the perfect case where a 100% success assessment is made at every January and July decision. The “Sample Performance” line shows less-than-100% assessments in a few cases to illustrate how fee risk is delayed by less-than-perfect performance but how the risk can yet be reduced to zero by providing a longer period of performance.

TABLE 3—LIFETIME SAMPLES

FEE RISK REDUCTION -- TWO SCENARIOS

1-\$75m, 2-\$110M, 3-\$150M



▲ Perfect performance shows 100% success assessment at every decision.

▲ Sample performance shows the performance illustrated in the example above.

▲ The initial period has a fee risk removal pool of \$75M. This shows a first decision of 100%, three decisions of 50% (note the changed slope of the line), and two decisions of 100%.

▲ JAN 2010 starts the second period, and the fee risk removal pool is \$76.25M. There are three 80% assessments, but it is hard to notice the difference in slope in this printing.

▲ JUL 2012 starts the final period, and the pool is \$82.7. This shows two 40% assessments and two 0% assessments (the flat line), and all the others are 100%. Note that all of the fee risk may yet be removed, notwithstanding less-than-perfect assessments early in the program. Less-than-perfect performance is offset by a longer period of useful service.